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Chairman Lott, Senator Rockefeller, and other distinguished members of the Subcommittee, thank you for inviting me to testify regarding the status of the private screening pilot (PP5) program and TSA's plans to implement the Federal screening opt-out provisions of the Aviation and Transportation Security Act (ATSA). Earlier in the week, I briefed the staff of the full committee, as well as other interested Committees in Congress, on the guidance that TSA issued on June 23 regarding the private screening opt out program, which I will now refer to as the Screening Partnership Program. I am pleased to have this opportunity to share with all of the members of this Subcommittee TSA's experience with the PP5 program, to describe the contents of the Screening Partnership Program guidance, and to outline our plans for instituting the mechanism by which we will receive, evaluate, and approve applications by airports to opt out of Federal screening.

Before I proceed, however, I would like to assure members of the Subcommittee and the public that security has been and will remain our top priority. The utilization of private contractors in the PP5 program did not lead to a rollback of security or to a reversion to the type of screening operations that were conducted prior to the September 11, 2001, attacks. We managed the PP5 program with security first and foremost on our minds and in keeping with the requirements of ATSA, and security will remain our most important consideration as we move forward on implementing the Screening Partnership Program.

Under the PP5 program, TSA required that the private screening companies and their employees follow heightened security standards that were instituted throughout the Nation's airports following the September 11 attacks and the enactment of ATSA. The companies must perform at the same level as Federal screeners and comply with Federal passenger and baggage screening standard operating procedures. Furthermore, ATSA requires that the private screeners meet the same strict hiring and training qualifications applicable to Federal screeners. Finally, ATSA mandates that the private screening companies provide compensation and other benefits to private screeners that are not less than the level of compensation and other benefits provided to Federal screeners.

While the private contractors provide management and supervisory staff oversight, screening activities are still subject to supervision by TSA, as provided in ATSA. To oversee the day-to-day operations of the contractors, budgetary issues, and contract

support, TSA established a Private Pilot Program Office that is responsible for ensuring that contractors perform screening services consistent with the requirements of airport security plans, security directives, and other applicable requirements.

Under the PP5 model, Federal Security Directors (FSDs) and their staffs interact directly with the contract screeners in the performance of day-to-day operations. This is a hybrid government/private approach in which the private sector must not only comply with strict security performance standards, but also submit to active Federal oversight in daily operations. TSA envisions that the Screening Partnership Program will continue to be a hybrid government/private model, though there may be variations in how this is implemented airport-by-airport. Any approach must ultimately ensure effective and efficient security operations and provide a vehicle whereby innovations, best practices, and efficiencies are identified and evaluated in practice by the contractors and then adopted throughout the Nation's aviation security system.

Standing Up the Private Screening Pilot Program

Under ATSA, TSA was required to establish a pilot program for screening of passengers and property at up to five airports by qualified private screening companies under contracts entered into with TSA. ATSA required that the program begin on November 19, 2002, and that each of the airports selected for participation be from different security threat categories. Furthermore, ATSA established minimum standards with respect to pay and benefits for screeners employed by the private contract screening companies and required that the companies be owned and controlled by U.S. citizens.

Overall, TSA received a total of 19 applications to participate in the program. TSA reviewed the applications, and based on this analysis and the requirement that TSA select no more than one airport in each of the five different security threat categories, TSA selected the following airports for participation:

1. Category X: San Francisco International Airport (SFO)
2. Category I: Kansas City International Airport (MCI)
3. Category II: Greater Rochester International Airport (ROC)
4. Category III: Jackson Hole Airport (JAC)
5. Category IV: Tupelo Regional Airport (TUP)

After selecting these airports, TSA issued requests for proposals to solicit bids to provide contract screening services at the five pilot airports. TSA evaluated the applicants' qualifications and awarded contracts to Covenant Aviation Security, LLC at SFO and TUP; ITS Inc. (now known as FirstLine Transportation Security, Inc.) at MCI; McNeil Security, Inc.) at ROC; and Jackson Hole Airport Board at JAC. The contract costs for the second year of operation of the five PP5 airports under the four contracts is approximately \$133 million in the aggregate. All contracts entered with the companies were cost-plus-award-fee contracts in order to maximize flexibility with respect to contract scope and to minimize risk to contractors, while providing incentives to the

companies to perform strongly. In addition to the basic contracts, the four contractors were also eligible for \$15.9 million in incentive award fees.

Next, TSA had to work with the airports and contractors to recruit and train the screeners employed by the screening companies. It is important to note this recruitment and training was being conducted during the same time frame TSA was working nonstop to implement Federal screening operations at all the country's airports. Both TSA and the pilot program contractors drew from the same pool of candidates for the initial recruitment of screener applicants. TSA initially employed NCS Pearson Company to establish the assessment centers and test the screener applicants to determine their eligibility for employment.¹ NCS was required to comply with TSA criteria used to conduct assessments on applicants for Federal screener positions. Once determined eligible by NCS, pilot program contractors could then select their employees.

Following the assessment and hiring, screener trainees for the PP5 airports were provided instruction and hands-on training that were identical to trainees at the other airports. For the initial training of screeners during roll-out, TSA hired Lockheed Martin to provide the training for passenger screening and hired Boeing-Siemens to provide the training for checked baggage screening.² ATSA requires that, at a minimum, all screeners complete 40 hours of classroom training and 60 hours of on-the-job training (OJT) before independently performing screening duties. Private contract screeners are also required to receive all recurrent training and to complete annual recertification.

Evaluation and Lessons Learned from the Private Screener Pilot Program

To evaluate the PP5 Program effectively, TSA needed to distinguish between differences that result from the unique characteristics of each airport and differences that result from using a private contract screener workforce. To identify and measure meaningful differences between Federal and private screening, TSA retained the services of BearingPoint and Abt Associates to conduct an independent and objective evaluation. BearingPoint and Abt were charged with developing a sound evaluation structure, conducting the actual performance evaluation and comparison between private screening pilot airports and Federal screening airports, and developing a process to help TSA determine if a private screening company can provide a level of screening service and protection equal to or greater than that provided by Federal screeners. Along with the five pilot airports, the group evaluated data from all of TSA's airports and selected fifteen other federalized airports comparable to the PP5s for in-depth comparisons. During these evaluations, the group conducted over 150 interviews with FSDs, airport managers and staff, airline representatives, and others.

The evaluation measured performance in the three following general categories: security effectiveness, customer service and stakeholder impact, and cost to the government. In

¹ TSA has since replaced NCS Pearson Company with Cooperative Personnel Services to administer assessment centers.

² Since May 2003, TSA has used Lockheed Martin to provide initial training for all screeners.

quantifying security effectiveness comparisons, the independent evaluation team used four criteria to measure screener effectiveness: (1) screener performance in covert testing conducted by TSA, the DHS Inspector General, and the General Accounting Office, (2) screener response to threatening images displayed by the Threat Image Projection System, (3) the use of secondary searches conducted at boarding gates to assess the effectiveness of initial searches at some airports, and (4) screener performance on various re-certification tests. In conducting cost comparisons, the evaluation team determined how much TSA spent for screening operations at each of the five pilot airports (which included not only contract payments but also costs borne by TSA) and compared that with estimates on how much TSA would have spent had it actually conducted the screening operations at the PP5 airports. In evaluating customer service and stakeholder impact, the evaluation team compared survey data on passengers' expressed satisfaction with screening operations, complaints and compliments actually submitted by passengers, and passenger wait times.

BearingPoint and Abt completed their independent evaluation and issued their report to TSA in April of this year. The study concluded that TSA succeeded in developing and executing a pilot program that both meets the Congressional requirements and ensures security. Specifically, the report's findings in the three critical areas are as follows:

- Security Effectiveness—The five PP5 airports performed at a comparable level to Federal airports.
- Costs—Costs at the five airports were not different in any statistically significant manner from the estimated cost of federally-conducted security operations at those airports.
- Customer service and stakeholder impact—Data indicated that customer satisfaction at the Category X and I airports was mixed. For the other airports, there was insufficient data to draw any conclusions. However, a qualitative survey of stakeholders revealed no difference between airports using private or federal screeners.

In addition to the findings regarding how the PP5 airports compare to Federal airports on these quantitative measures, the report also provided recommendations for improvements to the PP5 program and to operations at airports throughout the country. Notably, the report confirmed that regardless of whether an airport's security functions are handled by the Federal government or by private contractors, strong FSD management was a key factor in driving good screener performance. Indeed, the success of the PP5 program was helped by our FSDs, their staffs, and the working relationships they built with their airport and screening company stakeholders.

TSA is striving to replicate the success at PP5 and other airports by empowering FSDs all across the country with the tools and flexibility to manage operations at the local level. To ensure that experienced FSDs share their institutional knowledge of operations in the field, TSA has reinstituted the FSD orientation program for newly appointed FSDs, under which each new FSD is assigned a mentor who can provide guidance and support to new FSDs as they adapt to their new positions.

At airports with Federal screeners, we are more intimately involving FSDs in the recruiting, hiring, assessment, and training of screeners. FSDs are now involved in the structured interview of screener applicants and making hiring decisions, and they conduct the swearing-in ceremony and organizational briefing for new hires. FSD staffs have also been trained to teach the basic passenger and baggage screener course and to provide cross training. Going forward with the Opt Out program, the primary security outcome responsibility will remain with the FSD, but specific operational activities at contract airports will vary depending on the nature of screening operations and contractual roles of the airport, the contractor, and TSA.

The study also recommended program improvements specific to airports that utilize private contract screening. In particular, the BearingPoint report, as well as other studies by the Department of Homeland Security Inspector General and the General Accounting Office, echoed concerns expressed by stakeholders that TSA was not providing contractors sufficient flexibilities in administering screening operations so that they could fully explore ways in which to identify and test different procedures that might lead to improved security and/or efficiencies and cost savings.

TSA appreciates and understands these concerns, though given TSA's learning process and prevailing security concerns it was appropriate for TSA proceed with caution in expanding contractor flexibility. Nevertheless, contractors will have significant discretion moving forward in operational and management decisions. Among other areas, contractors will have discretion over screener supervision, overhead, materials, recruiting, compliance, and scheduling. Some PP5 contractors have already implemented such flexibilities within their operations. Also, since the inception of the PP5 program, the contract screening companies have possessed the flexibility to differentiate from TSA in the design and delivery of recurrent training.

TSA welcomes a continuing dialogue with regard to additional flexibilities, within the confines of security requirements and the law. Within the area of screener assessment, PP5 contractors submitted proposals detailing how they would conduct the initial assessment and hiring process and how the changes would result in a more cost efficient and effective process. TSA is currently reviewing the proposals and conducting a dialogue with the contractors regarding their submissions.

At an airport-specific level, one example of flexibility that TSA has allowed to be evaluated is the idea conceived by Covenant Aviation Services to implement and test the concept of using baggage handlers to perform non-screening functions in lieu of baggage screeners at SFO. The idea anticipates that the use of such baggage handlers will result in cost savings without any deterioration in security because baggage handlers are not required to meet the same assessment standards applicable to screeners, undergo the same training regimen that passenger and baggage screeners must undergo, and are compensated at lower levels. This redirection of support resources will allow screeners to focus on their core mission. TSA is now monitoring the implementation of this idea to ascertain whether it is effective and whether it can feasibly be duplicated at other airports.

Finally, although the completion of the independent study was an important milestone, TSA continues to operate and learn from the PP5 airports. Even after the issuance of the report, TSA has continued to gather important data from the PP5 airports and to evaluate our experience. As we learn more, and as we receive additional ideas on flexibilities from our stakeholders, we will test innovations in the operation of private contract screening. TSA regards the administration of the PP5 program as one that involves a continuous, iterative cycle of operating, evaluating, and innovating, whereby lessons learned are expeditiously incorporated and result in ongoing program improvements. We intend to continue operating, evaluating, and innovating with respect to the design and operation of the Screening Partnership Program.

Preparations for Implementation of the Screener Partnership Program

As indicated earlier, TSA is on schedule to begin to receive applications from airports to opt out of Federal screening on November 19, 2004. While the recently issued guidance is not intended to address every question relating to the Screening Partnership Program, its issuance brings TSA one step closer to being in a position to approve actual applications. TSA expects that the first set of airports that apply for and are approved to utilize private contract screening will begin to undergo transition in summer, 2005.

In developing the guidance, TSA has established four major goals for the Screening Partnership Program. First, security is paramount and non-negotiable. Private screeners must perform at the same or better level as Federal screeners and operate consistent with Federal passenger and baggage screening standard operating procedures. While the BearingPoint/Abt evaluation of the PP5 program indicated that an opt-out airport could provide a level of screening protection that is equal to or greater than the level at airports with Federal screeners, TSA will only approve applications in those instances where it is confident that an airport's opting out will not lead to deterioration of security at that particular airport.

Second, customer service counts. While security is always TSA's most important objective, ensuring a courteous, professional, and efficient process for passengers and other members of the aviation community is a critical part of the opt out mission.

Third, costs should be competitive. TSA is interested in achieving cost savings and expects contractors in the Screening Partnership Program to provide screening services at a cost to TSA that is competitive with equivalent Federal operations. TSA is conducting an activity-based costing study to help refine estimates of the fully burdened costs of operating a screening program.

Fourth, TSA seeks to create a partnership that leverages the strengths of the private and public sectors in order to fully capture the best of both worlds. As the name of the program suggests, this will be a true partnership between the Federal government and the private sector. The Screening Partnership Program can only achieve its objectives if airports, private sector screening companies, and the TSA work together hand-in-hand.

Partnership with our stakeholders is also essential as TSA seeks to devolve authority to decision makers at the local level who may often have the clearest understanding of a particular issue.

Specifically, under the guidance, TSA has indicated that there will be an initial application window that begins on November 19, 2004, and extends for a period of weeks. TSA will open application windows for a similar period in following years. The application process will be simple and straightforward. Applicants will be asked to submit basic information identifying the applicant, an individual who will serve as a point of contact for the airport, and relevant information in support of the application. TSA is currently developing and reviewing the specific criteria under which it will evaluate the applications. Acceptance will be an iterative process that factors in the airport's record of compliance with security regulations and requirements, and estimated costs of conducting contract security operations as compared to Federal security operations. TSA expects to render decisions on airport selection in early 2005.

Concurrent with the airport application process, TSA must institute an acquisition process for selecting the private screening contractors at each airport that is approved to opt out of Federal screening. TSA intends to streamline the acquisition process by developing a Qualified Vendor's List that identifies screening companies and, as appropriate, airports that meet ATSA's requirements for eligibility under the program.

Once an applicant is placed on the Qualified Vendor's List, it will be eligible to compete to provide screening services at any airport that is approved to opt out of Federal screening. TSA anticipates providing airport-specific information to contractors to assist them with preparing their bids. This information would include overall responsibilities and screening functions for which the contractor will be responsible, local wage rates of federal screeners, TSA's requirements for staffing security checkpoint lanes, passenger flows from the airport, and activity-based costing data. Among other things, contractors will be selected based on anticipated cost and performance, and TSA expects to commence the announcement of contract awards beginning in the spring of 2005.

TSA also seeks to reward strong performance by contractors. TSA is actively considering the specifics of the procurement process and the type of contracts that would be awarded. TSA recently issued a Request for Information (RFI) to obtain input from the aviation industry on the contract vehicle type and is in the process of consolidating results and determining the appropriate contract vehicle and length of contract. With the PP5 contracts, TSA awarded cost-plus-award-fee contracts in order to minimize risks relating to the contract scope. Based on experience with the PP5 contracts, TSA is considering alternative contract types that may provide incentives to contractors to manage their screening operations effectively and efficiently and place an appropriate level of cost risk on the contractor. TSA will develop performance metrics for the Screening Partnership Program to provide accurate measurement of program and contractor performance. The implementation of metrics with more specific targets would enable TSA to incorporate and enforce contract terms relating to performance to better

ensure accountability and to carry out any applicable contract incentives that encourage contractors to innovate and exceed expectations.

The existing PP5 airports will continue to operate, though the current contract type for these airports may be modified before the next contract extension.

The President's budget for FY2005 requests \$2.2 billion for the Screener Workforce in a single budget line item. This amount would cover all required screener staffing, whether Federal or contract, passenger or baggage screeners. In this manner, costs for contracts with companies providing screening services at opt out airports will be funded by the cost of the Federal operations that are being displaced. This budget structure provides flexibility on the number of airports that can actually participate in the program. Proposing a specific program budget would be difficult we not know the number of airports that will elect to opt out and the size of these airports. Finally, this is a transparent mechanism that ensures that the Screening Partnership Program airports will not be afforded preferential or discriminatory treatment in terms of the resources that are made available for their screening operations. We will continue to urge Appropriators in both the House and Senate to support this budget structure approach.

Members of this Subcommittee and other Members of Congress have raised the issue about the apparent disparity between airports utilizing Federal screeners and those that would participate in the Screening Partnership Program with regard to unionization and collective bargaining. Screeners, whether employed by TSA or contractors, may join a union. However, under the authority vested under ATSA, TSA has issued a determination that in light of its critical national security responsibilities, Federal screeners are not entitled to engage in collective bargaining with TSA, either individually, or with representation from an organization.

In the case of contract screeners, however, TSA does not take a position regarding whether they may organize for purposes of collective bargaining because this is a matter between those screeners and their employer. Regardless, ATSA provides that neither Federal nor contract screeners are permitted to strike.

Another issue is minimizing the disruption of the Screening Partnership Program for our Federal screeners. TSA recognizes that every day, they stand on the front lines of our ongoing mission of securing our Nation's civil aviation system, and their contributions are invaluable. With the impending implementation of the Screening Partnership Program, they are understandably anxious about whether they can continue to stand as important bulwarks in our Nation's defense and about their own jobs and livelihood. This is one of many important transition issues that we will have to consider as TSA implements the Screening Partnership Program. Our goal will be to ensure that any transition does not lead to degradation of security during the initial months of the opt-out and to effectuate a transition process that is fair, cost-effective, and seamless, and which capitalizes on the training and experience we have invested in our current workforce. Consistent with meeting these objectives, TSA is examining legal and other issues regarding a possible right of first refusal for contractor employment of Federal screeners

at affected airports. TSA will also strive to assist Federal screeners who are not placed at contract screening companies with placement in other TSA or Federal agency positions or through other means. As we progress further, we will continue to endeavor to communicate effectively with the current screening workforce to answer their questions and to alleviate their concerns.

Conclusion

TSA is well on its way toward implementing the Screening Partnership Program. TSA is aggressively developing performance outcome metrics that will help us better monitor both Federal and contract operations going forward. We will begin receiving Opt Out applications from airports beginning on November 19, 2004, as required by ATSA, and will continue to do so during a 3-week window. Afterwards, TSA will evaluate the applications with the intention of selecting airports to participate by early 2005.

TSA expects that it will begin issuing contract screening awards by late Spring, 2005. Airports would likely begin converting from Federal to contract screening in the late spring/early summer, 2005, time frame. TSA realizes that although the issuance of the guidance is a significant step, not all questions and issues associated with the program have been answered. There are still a number of significant operational issues outstanding that require further consideration, and we will work diligently towards resolving those issues in the coming months.

Chairman Lott, Sen. Rockefeller, and other distinguished Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions at this time.